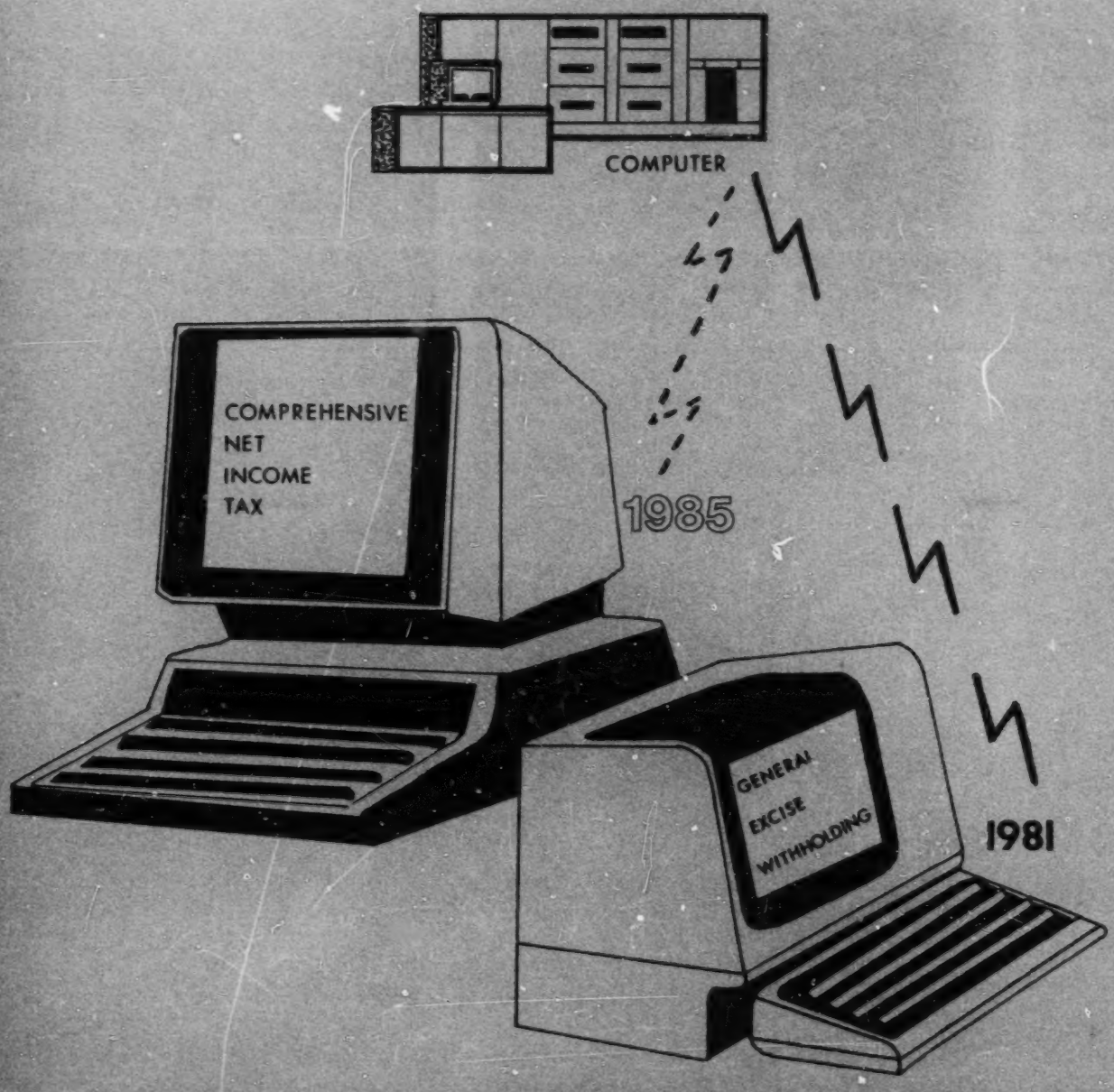
DEPARTMENT OF TAXATION

ANNUAL REPORT 1982-1983



The Honorable George R. Ariyoshi
Governor
State of Hawaii

George Freitas
Director of Taxation
State of Hawaii

October 4, 1983

The Honorable George R. Ariyoshi
Governor, State of Hawaii
State Capitol
Honolulu, Hawaii 96813

Dear Governor Ariyoshi:

It is with great pleasure that this report on departmental operations during the fiscal year 1982-1983 has been prepared for your information. Your attention is especially called to the many program goals achieved during the year.

The general excise, use and withholding tax is automated and complements the department's reorganization of two divisional operations, namely, Tax Services & Processing Division and Compliance Division. The department continues to experience improvements in handling tax documents, including a 40-hour deposit of receipts and processing of individual tax refunds within seven (7) weeks. We will enhance the services to the taxpayer by automating the individual net income tax in the future.

We have initiated additional programs to further enhance our ability to process returns, enforce tax laws, assist taxpayers and improve overall tax administration which will be reflected in our departmental future operations.

The improvements in tax revenue growth, audit, compliance and delinquent tax collections are presented in the statistical tables and charts.

The progressivity and creditability in the overall operations, in my opinion, were substantial and attributable primarily to the combined efforts, initiative and dedication of all the employees working together in the Tax Department.

Very truly yours,

George Freitas

GEORGE FREITAS
Director of Taxation

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THE YEAR IN REVIEW

ADMINISTRATION

The Tax Department's second successful year of operation under its new organizational structure saw major improvements in key areas. Modified audit procedures expedited the processing of returns and improved the yield of audits. Placing all activities relating to collection of delinquent taxes and the securing of nonfiled tax returns within the same organizational unit increased delinquency collections and reduced delinquent taxes outstanding. Refund checks were issued more quickly and public complaints and inquiries about the status of refunds were substantially reduced.

In February, 1983, the Department complied with Act 199, Session Laws of Hawaii, 1982, relating to recovery of money owed to the State, by modifying the individual income tax refunding procedure. The Act mandated the Child Enforcement IV-D Agency, Department of Social Services and Housing (DSSH), to offset money owed the State for delinquent child support payments by "intercepting" state tax refunds for calendar year 1982. With the assistance of the Department of Accounting and General Services (DAGS) and DSSH, these procedural changes were successfully accomplished.

The aftermath of Hurricane Iwa saw departmental personnel man the Federal Emergency Management Agency (FEMA) Disaster Assistance Centers on Oahu and Kauai to inform citizens about income tax relief. Tax office employees served at the centers on Oahu from December 2-7 and on Kauai from December 2-11, 1982. Tax information was provided to approximately 3,000 people on Oahu and 1,000 on Kauai. Options available to hurricane victims for casualty losses sustained were: 1) file an amended 1981 tax return; 2) claim the loss on the 1982 tax return; or 3) deduct the loss in equal installments over a 5-year period beginning in 1982, the taxable year in which the casualty occurred.

Departmental personnel continue to help with the outreach Volunteer Income Tax Assistance (VITA) program which assists community groups and individuals with income tax preparation.

A long-term goal of the Department is the operation of a fully automated and integrated tax system. Toward this end, on-going quality review of systems and procedures accompanies development of the automated Net Income Tax System.

TAX SERVICES AND PROCESSING DIVISION

The objectives of the Tax Services and Processing Division are to process all tax documents filed as efficiently as possible, maintain accurate accounting records for all tax programs and assist the public on tax matters through correspondence, telephone, and personal contact.

Operational objectives for the year included: 1) processing refunds within 4 weeks of return receipt; 2) depositing tax payment checks within 5 days of receipt; and 3) increasing service and coverage to the public.

Of the 367,244 individual income tax refunds processed during fiscal 1983, about half were processed within 3 weeks of return receipt. The remainder were processed for office audit review and were completed within 7 weeks of receipt. All tax payments were deposited within 4 days of receipt. A new telephone directory listing and a new rotary phone system enabled a 16% increase in the number of phone queries handled (150,000) and reduction of lost calls from 20% to 10% of all calls received.

The division trained 33 department employees on Oahu who volunteered to assist taxpayers with returns preparation on weekends under the IRS VITA (Volunteer Income Tax Assistance) program.

COMPLIANCE DIVISION

The primary objective of the Compliance Division is to maximize voluntary public compliance with Hawaii's tax laws. The two major programs of the division are: (1) an audit program to ensure accurate tax reporting, and (2) an enforcement program to identify and collect delinquent accounts.

During the year the division continued to monitor and improve the level of public compliance with State tax laws. A major effort went into examining the extent of compliance with general excise tax laws by two groups in particular—selected licensed professionals and condominium landlords. Assessments were made where due. Through investigation of government records and other sources, the division found relatively high compliance by professionals but substantial noncompliance by condominium landlords. The Twelfth Legislature subsequently passed Act 234 which requires an agent for an owner of real property to submit to the Department of Taxation a copy of either the first page of a rental collection agreement or Internal Revenue Form 1099 and to notify the owner of his obligation to pay the general excise tax on his gross rental income. This law is expected to increase general excise compliance by landlords, especially those residing outside Hawaii.

Auditing activity netted a higher dollar volume of assessments this year. While completed field audits increased to 1,296, 19% more than last year, field audit assessments nearly doubled from $8.1 million to $16.1 million. While the number of office audits declined 26% to 319,025, office audit assessments increased from $5.7 million to $5.9 million. These favorable results were partly the result of operational modifications to help identify more complex returns for audit.

Through an aggressive delinquent tax collection program, the dollar volume of delinquency collections increased 33% over last year, while the amount of outstanding delinquent taxes decreased 21% and the number of delinquent accounts outstanding at the end of the year was 19% less. The Department's firm stance on delinquencies is further evidenced by the increase over last year in the number of new payment plans started by delinquent taxpayers, up 52%; the number of new liens, up 106%; and the number of new levies, up 208%; despite 23% fewer accounts closed during the year.

	Fiscal Year	
	1983	1982
Accounts Closed	45,758	59,192
New Payment Plans	904	598
New Liens	2,487	1,208
New Levies	302	98

The division continued to systematically secure nonfiled general excise, use, and withholding tax returns. Activity measures are summarized below:

	Fiscal Year	
	1983	1982
Accounts Contacted	4,485	7,204
Accounts Closed	3,595	4,299
Returns Received	5,333	7,742
Total Liabilities Filed	$1,550,791	$3,340,000
Total Remittances Received	$ 824,219	$1,210,000

STAFF OFFICES

Administrative Services Office

The Administrative Services Office coordinated the preparation of budget requests for the fiscal year biennium 1983-1984 and 1984-1985 and the departmental expenditure plans and allotments. Departmental operating expenditures this year totalled $8.3 million. When the conveyance tax, insurance premium tax, and the motor vehicle weight/registration fees, which are collected by other state and county agencies, are excluded from total tax collections, the cost per $100 of taxes collected amounted to 69¢ for fiscal 1983.

The Legislature authorized the Department 323 positions for the fiscal year. The positions were geographically distributed as follows: Oahu 250; Hawaii 36; Maui/Molokai 22; and Kauai 15.

Movements within the Department were characterized by 30 civil service new hires for permanent regular positions, 115 hires for temporary appointments, and 7 retirements. Other transactions included 55 promotions, transfers, or reallocations, 4 resignations, and 94 terminations involving temporary positions.

STAFFING PATTERN
(Number of Authorized Permanent Positions)

	Fiscal Year	
By Organizations/Operating Programs	**1983**	**1982**
Headquarters Administration	36	36
Tax Services and Processing Division[1]	89	89
Compliance[2]	198	198
	323	323

1. Tax Services and Processing Division includes three branches (see organization chart).
2. Compliance Division includes two branches (see organization chart).

NOTE: Above does not include, a) temporary clerical support positions utilized during the peak periods and special projects, b) temporary student positions during the summer.

Systems and Procedures Office

Work continues on development of the Comprehensive Net Income Tax System (CNIT). Following Phase I completion last year, four companies submitted proposals for Phase II. A committee composed of members from the Tax Department and other State departments reviewed the proposals. An independent review was also conducted by Coopers & Lybrand, CPAs. Phase IIA, scheduled to begin after consultant selection, will produce a detailed CNIT computer program specification document. In addition, a new user committee was formed to review the detailed application design of Phase I, to identify major problem areas and to recommend alternate solutions.

On October 15, 1982, twelve additional CRT (cathode ray tube) terminals were installed on Oahu for the General Excise and Withholding Tax System (GEW). The Department now has 24 computer terminals statewide, 18 on Oahu and 2 each on Hawaii, Maui, and Kauai. A project to modify and enhance the GEW computer programs was undertaken and will be completed during the next fiscal year.

Ongoing quality review of the system has helped speed the processing of 1982 refund returns, and as the Tax Department proceeds with Phase II, greater emphasis will be placed on quality control and review.

Income Technical Office

The Income Technical Office prepared testimonies on 81 House bills, 94 Senate bills and 2 House resolutions during the 1983 legislative session.

In response to requests, the Income Technical Office issued approximately 582 memorandums, rulings, and letters. One hundred one applications were received from nonprofit organizations for exemption from the general excise tax; one hundred were approved and one disapproved.

Tax information releases numbered four, compared to nine last year. Eleven Department of Taxation announcements were issued during the year.

Rules relating to sales of materials or commodities to a licensed agricultural or aquacultural producer or cooperative association were approved by the Governor on April 13, 1983.

A public hearing was held on May 24, 1983, covering proposed rules relating to individual housing accounts.

The Income Technical Office conducted or coordinated the following training sessions:

—Training on tax acts enacted by the 1982 Legislature was held at all districts.
—Hawaii Tax Institute, sponsored by Chaminade College, was attended by 7 departmental personnel.
—Certified Public Accountant Audio Practical Approach to Preparing Forms 1040 (1981-82), a self-study audio cassette with workbook, has been used by 12 departmental personnel since March, 1983.
—Certified Public Accountant Audio Federal Taxation of Partnerships, a self-study audio cassette with workbook, has been used by 10 departmental personnel since March, 1983.
—Audit Negotiation Technique Training was attended by 5 departmental personnel.
—Continuing Professional Education for Tax Auditors was attended by 6 departmental personnel.
—Continuing Professional Education for Revenue Agents was attended by 20 departmental personnel.
—Basic Tax Research - Using the Research Institute of America Tax Service was attended by 43 departmental personnel.
—Basic Tax Research - Using the Prentice Hall Tax Service was attended by 80 departmental personnel.

The Income Technical Office was involved in updating, revising, and drafting tax forms, schedules, and instructions for tax year 1983. A majority of the forms, schedules, and instructions were completed by June 30, 1983.

Tax Research & Planning Office

The Tax Research and Planning office provides technical and administrative assistance to the Council on Revenues.

In September, 1982, the Council on Revenues estimated that the general fund tax revenues for the fiscal year 1982-83 would increase 8.2% to $1,081.2 thousand. Actual collections amounted to $1,082.5 thousand, an 8.3% growth over the fiscal year 1981-82. In arriving at this forecast, the Council envisioned a slowdown in inflation and construction activity. No real economic growth was expected. Also, the $25 general tax credit was considered.

Total state personal income was estimated to increase 7.0% for calendar 1982 by the Council on Revenues in July, 1982. This was later revised to 6.5% in October, 1982. Preliminary data provided by the Bureau of Economic Analysis, U.S. Department of Commerce, in June, 1983, places the calendar 1982 change to be 6.6%.

The seventh study on tax credits was published in March, 1983. This report covers tax returns filed in 1982 on 1981 income and provides pertinent data on six types of tax credits: the excise, renters, child care expense, solar energy device, heat pumps and hot water heater insulation tax credits. The $100 general tax credit analysis was also included in the report. Work on the 1981 Hawaii Income Patterns Study on Individuals and the 1979 and 1981 Business Income Study (biennial reports) were in the final stages of completion at the end of fiscal 1982-83.

A recent addition of a Hewlett-Packard graphics system has greatly increased the capability and performance of this office. Development of forecasting models for general fund tax revenues and the state personal income can be accomplished more expeditiously. Tax data can be analyzed and presented graphically, providing the Department with an added dimension in understanding tax revenues and tax laws.

The Tax Research and Planning Office reviewed 150 tax measures introduced during the 1983 legislative session to determine the revenue impact of each proposal.

MANAGEMENT PERSONNEL

OFFICE OF THE DIRECTOR

Director of Taxation	George Freitas
Deputy Director of Taxation	Wallace Aoki

DIRECTOR'S OFFICE STAFF

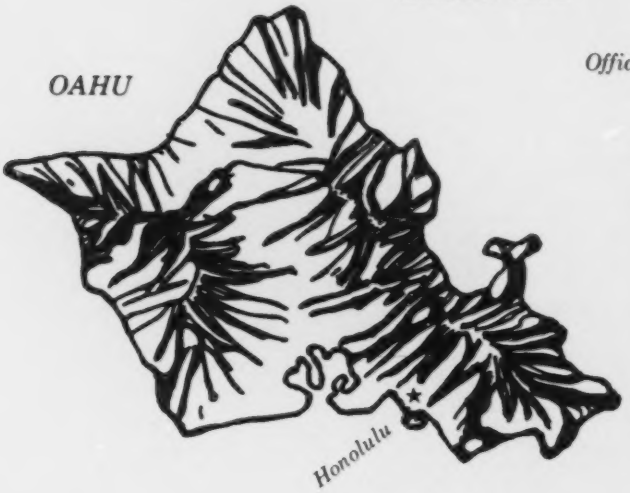
Income Program Officer	David Miyahira
Tax Research and Planning Officer	Robert Koike
Systems and Procedures Officer	Edwin Matsui
Administrative Services Officer	Gilbert Chang

OPERATIONS STAFF

Compliance Division Chief	Herbert Dias
1st Taxation District Office (Oahu)	
Audit Branch	Vacant
Enforcement Branch	Wayne Kinoshita
2nd Taxation District Office (Maui)	
Audit Branch	James Horikawa
Enforcement Branch	Stanley Ching
3rd Taxation District Office (Hawaii)	
District Tax Administrator	Sanford Yanagi
Audit Branch	Ronald Yabe
Enforcement Branch	Wendell Serrao
4th Taxation District Office (Kauai)	
District Tax Administrator	Thomas Nishimitsu
Audit Branch	Ernest Balderas
Enforcement Branch	Helen Teraoka
Tax Services & Processing Division Chief	Kenenth Murayama
Taxpayer Services Branch	Lawrence Nakano
Document Processing Branch	Richard Yokota
Revenue Accounting Branch	Warren Higashi

FIRST TAXATION DISTRICT

Island of Oahu



Office: 425 Queen Street
P.O. Box 259
Honolulu, Hawaii 96809

Compliance Division Chief
Herbert Dias
Audit Branch Chief
Vacant
Enforcement Branch Chief
Wayne Kinoshita
Tax Services & Processing Division Chief
Kenneth Murayama
Taxpayer Services Branch
Lawrence Nakano
Document Processing Branch
Richard Yokota
Revenue Accounting Branch
Warren Higashi

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai

Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

Audit Branch
James Horikawa
Enforcement Branch
Stanley Ching

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THIRD TAXATION DISTRICT

Island of Hawaii

Office: 75 Aupuni Street
P.O. Box 1377
Hilo, Hawaii 96720

District Tax Administrator
Sanford Yanagi
Audit Branch
Ronald Yabe
Enforcement Branch
Wendell Serrao

FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau

Office: 3060 Eiwa Street
P.O. Box 1689
Lihue, Kauai 96766

District Tax Administrator
Thomas Nishimitsu
Audit Branch
Ernest Balderas
Enforcement Branch
Helen Teraoka

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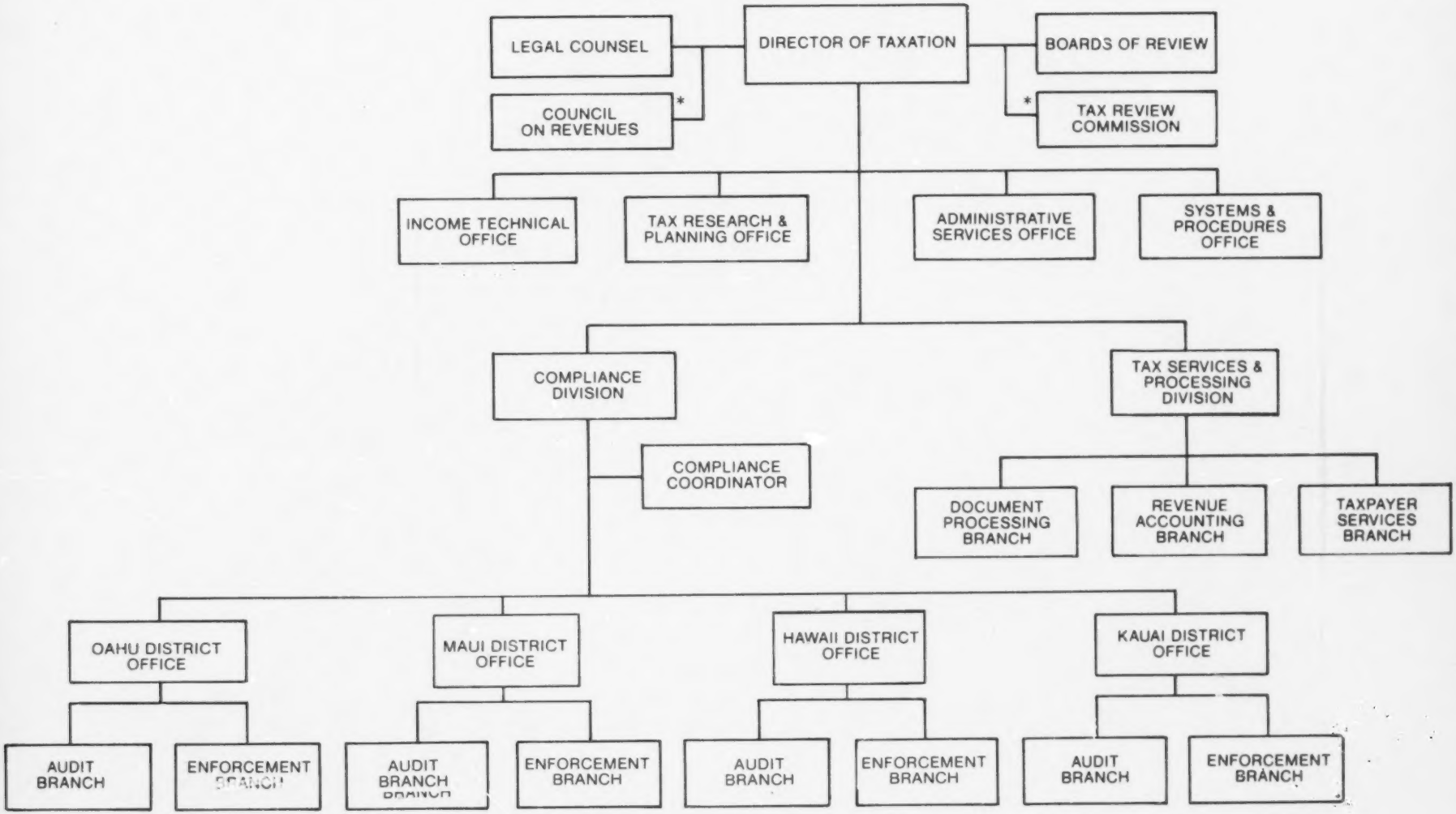
ORGANIZATION CHART

Department of Taxation
State of Hawaii



*For Administrative Purpose

TAX LITIGATION

BOARDS OF REVIEW

During the year the Oahu Board of Review received 11 new appeals, settled 2 general excise and 9 net income tax appeals, and had 3 appeals withdrawn. The Hawaii Board of Review received 12 new cases and settled 30, of which 23 were income tax appeals, 6 general excise tax appeals, and one a public service company tax appeal. The Maui Board of Review held no hearings and the Kauai Board of Review settled one income tax appeal during the year.

	Boards of Review			
	Oahu	Hawaii	Maui	Kauai
Appeals pending at year start	28	22	21	-
Appeals filed	11	12	7	1
Appeals settled	11	30	-	1
Appeals withdrawn	3	-	-	-
Appeals pending at year end	25	4	28	-

SUPREME COURT AND TAX APPEAL COURT

The Legal Counsel of the Department of Taxation closed 120 cases during the year, as follows:

Tax Appeals

Supreme Court	11
Tax Appeal Court	12
Mortgage Foreclosure	85
Bankruptcy	5
Others (Inheritance, etc.)	7

Summarized below are some of the major cases heard by the Hawaii Supreme Court and the Tax Appeal Court:

Pacific Laundry Co., Ltd. *Decided July 16, 1982*

At issue was whether or not the laundry and dry cleaning services rendered to the guests of various hotels are subject to the 4% general excise tax rate. The Taxpayer furnished all laundry slips and bags and made pickups and deliveries. The Taxpayer billed the hotel for the laundry and dry cleaning charges. However, all uncollectible accounts were charged to the Taxpayer. Except for negligence of the hotels or their employees, the Taxpayer assumed the liability for the loss or damage of the items laundered or dry cleaned. The hotels retained 25% - 35% of the Taxpayer's total charges as compensation for their services. In reporting its taxable gross receipts, the Taxpayer deducted commissions paid to the hotels and, since it deemed the hotels as its agent, the Taxpayer claimed it performed intermediary services in which the 1/2% rate would be applicable. The Supreme Court affirmed the Tax Appeal Court's decision that the commissions were neither exempt nor deductible for purposes of computing taxable gross income; that Taxpayer did not perform intermediary services, but had entered into agreements constituting the hotels as its agents, subjecting its gross receipts to the 4% tax rate.

Habilitat, Inc. *Decided August 18, 1982*

The issue was whether certain gross income derived by Taxpayer, a nonprofit organization, is exempt from the imposition of the general excise tax. The Supreme Court upheld the Tax Appeal Court's determination that the activities at issue are performed for gain or economic benefit and therefore deemed to be "business". Accordingly, all gross income derived therefrom is subject to the imposition of the Hawaii general excise tax. With reference to *In Re Central Union Church*, 63 Haw. 199 (1981), the Court determined that rentals paid by residents of Habilitat are exempt from the general excise tax. Taxpayer is subject to the 1/2% use tax on the purchase price to Taxpayer of tangible property imported for sale by residents of Habilitat.

C. Brewer and Company, Ltd. *Decided August 31, 1982*

This case concerned appellant's tax treatment of centralized services. Taxpayer C. Brewer and Company performed certain administrative services for its subsidiaries and controlled the extent and expenses of services allocated to each subsidiary. While Taxpayer paid general excise taxes on compensation received from its less than wholly owned subsidiaries, Taxpayer chose to record expenses for its wholly owned subsidiaries as contributions to subsidiaries' capital and did not report such amounts for general excise tax purposes. Similar treatment was accorded the interest assessed to the subsidiaries, although income taxes were paid on interest. In emphasizing the all-inclusive nature of the general excise tax, the Supreme Court determined that accretion of economic benefit to the Taxpayer was sufficient for transactions in this case to be deemed taxable and that Taxpayer must treat the transactions uniformly for tax purposes.

Charles Pankow Associates *Decided September 23, 1982*

The Supreme Court affirmed the Tax Appeal Court's determination to disallow Taxpayer's filing of a consolidated corporation income tax return. Taxpayer did not meet the requirement that, for consolidation, all affiliates in the group must be domestic corporations. Moreover, Taxpayer is obligated to return its income to the State, using not the unitary apportionment formula, but a method that will most fairly represent the Taxpayer's business activities in the State of Hawaii, as required by the Department of Taxation.

E-Z Serve, Inc. *Decided September 24, 1982*

The Taxpayer, a foreign corporation, had arrangements to deliver gasoline to its nominee, Aloha Petroleum Ltd., at terminaling facilities located outside the Foreign Trade Zone, on Taxpayer's account in the Zone. Taxpayer contested fuel tax assessments on disposition of products to dealers by Aloha Petroleum. The Supreme Court upheld the Tax Appeal Court's decision to reject Taxpayer's contention that all transactions had occurred in the Foreign Trade Zone and hence were not business transactions in the State. The Supreme Court agreed that either Aloha must have acted on Taxpayer's behalf or, if not, Taxpayer must have sold the products to Aloha at the terminal.

Kaiser Cement Corporation *Decided October 28, 1982*

The Supreme Court affirmed the Tax Appeal Court's determination that coal imported for use as a fuel in the manufacture of cement is subject to the use tax. Prior to conversion to coal-burning kiln, Taxpayer paid the 4% use tax on imported oil as a fuel. With conversion, however, Taxpayer argued that, although used as a fuel, coal, or its residue, coal ash, becomes a component of cement and is detectable by chemical analysis; hence imported coal fell within the statutory exemption, HRS 238-2(1)(B), of imported materials which are incorporated into finished products in such form as to be perceptible to the senses. The Court rejected the argument, noting that the presence of coal ash in cement was not detectable by the senses but only by chemical analysis; assessment of the use tax is proper and valid.

Amfac, Inc. and The Prudential Insurance Company of America *Decided November 29, 1982*

The Supreme Court reversed the Tax Appeal Court's determination that the replacement cost method is the exclusive approach to be used in the valuation of buildings and other improvements. Under this ruling, an assessor may use any method, such as the income approach, that most appropriately reflects age, condition and utility, or obsolescence.

Bacchus Imports, Ltd., Paradise Beverages, Inc., Eagle Distributors, Inc. and Foremost-McKesson, Inc., dba McKesson Wine & Spirits, Co. *Decided December 23, 1982*

Taxpayers challenged the constitutionality of Hawaii's liquor tax law, which exempts locally produced okolehao and fruit wine from the tax and results in higher taxes on imported liquor since the wholesale price would include transportation costs. Taxpayers contend that the law imposes an undue burden upon interstate and foreign commerce and is discriminatory. The Supreme Court upheld the Tax Appeal Court's ruling rejecting these arguments, finding no discrimination in the law's practical effects. The matter is under appeal to the United States Supreme Court.

The Queen's Medical Center *Decided April 11, 1983*

The Supreme Court reversed the decision of the Tax Appeal Court and upheld the assessments of additional general excise taxes upon lease rentals of office space in the Physician's Building and on fees from the adjacent parking facility. The Tax Appeal Court agreed with the Taxpayer's contention that the receipts were intended to further the Taxpayer's exempt purpose by providing a comprehensive one-stop medical facility at Queen's Medical Center. The Supreme Court determined, however, that the construction and operation of a physician's office building and parking structure, while related to the maintenance of effective medical care, do not properly constitute exempt hospital activities in themselves.

Marvin L. Johnston, Thelma G. Johnston, Alan H. Johnston, James C. Johnston, James M. Johnston and David M. Johnston *Decided December 14, 1982*

Upon specific notice to Taxpayers that appeals must be filed within thirty days, Taxpayers did not file appeals until 39 days after notice of the Board of Review decisions. The Tax Appeal Court dismissed Taxpayers' appeals to contest the assessment of real property taxes on their condominium apartments.

Panorama Air Tour, Inc. *Decided May 20, 1983*

Taxpayer Panorama Air Tour, Inc., which offers standard all-island package tours and special charters, excluded commissions paid to travel agents in its gross income subject to the general excise tax, on grounds that travel agents were independent retailers of Panorama's tours. The State argued that travel agents acted sufficiently as agents of Taxpayer and thus assessed Taxpayer on the omitted commissions. Working arrangements included: travel agents received no commissions until after passengers had flown; travel agents collected all tour money and were held responsible for the money until paid over to Taxpayer; Taxpayer reserved the sole right to refuse passengers, confirm bookings, change tour itineraries, and determine and issue refunds. The Tax Appeal Court ruled that agency did not exist and that Taxpayer is not liable for the general excise tax on amounts paid to travel agents. The matter is under appeal to the Hawaii Supreme Court.

LEGISLATION

In its continuing efforts to conform Hawaii's Tax Laws to the Internal Revenue Code, the 1983 State Legislature passed Act 88. With certain exceptions, this Act incorporates the Internal Revenue Code as of December 31, 1982.

Other tax bills enacted are summarized below:

Act

67 Income Tax Law: Deletes restriction that tax credit for heat pumps is allowed only for home water heaters.

97 Income Tax Law: Provides a one-time $1 general income tax credit for qualifying resident taxpayers.

103 General Excise Tax Law: Specifies that refund claims for general excise taxes shall be made within the customary three-year statutory period.

152 Establishes a High Technology Development Corporation and a Pacific International Center for High Technology Research; exempts investment income from Corporation's bonds from most State taxes and Corporation's income from projects from all State taxes.

206 Income Tax Law and General Excise Tax Law: Clarifies that a resident taxpayer and a nonresident spouse filing jointly must compute their State income tax on their aggregate income regardless of source.

212 Establishes a new Tax Review Commission to report its recommendations to the 1985 Legislature.

217 Inheritance and Estate Taxes Law: Repeals Chapter 236 and provides that only estates subject to federal estate tax law are subject to State tax.

228 General Excise Tax Law: Expands the general excise tax exemption to include additional activities associated with low and moderate income housing projects receiving government assistance.

234 General Excise Tax Law: Requires agents collecting rent for owners of Hawaii real estate to send to the Department of Taxation copies of the first page of a rental collection agreement or federal form 1099 and to inform owners of their requirement to pay the general excise tax on rental income.

250 Reduces special stump tax rate for trees harvested under any State forest land management program from 5% of stumpage value to 1/2% until 1985 and 2-1/2% thereafter.

278 Provides for the establishment of international banking facilities in Hawaii and prescribes a special tax deduction for such establishments.

INCOME ASSESSMENT AND AUDIT

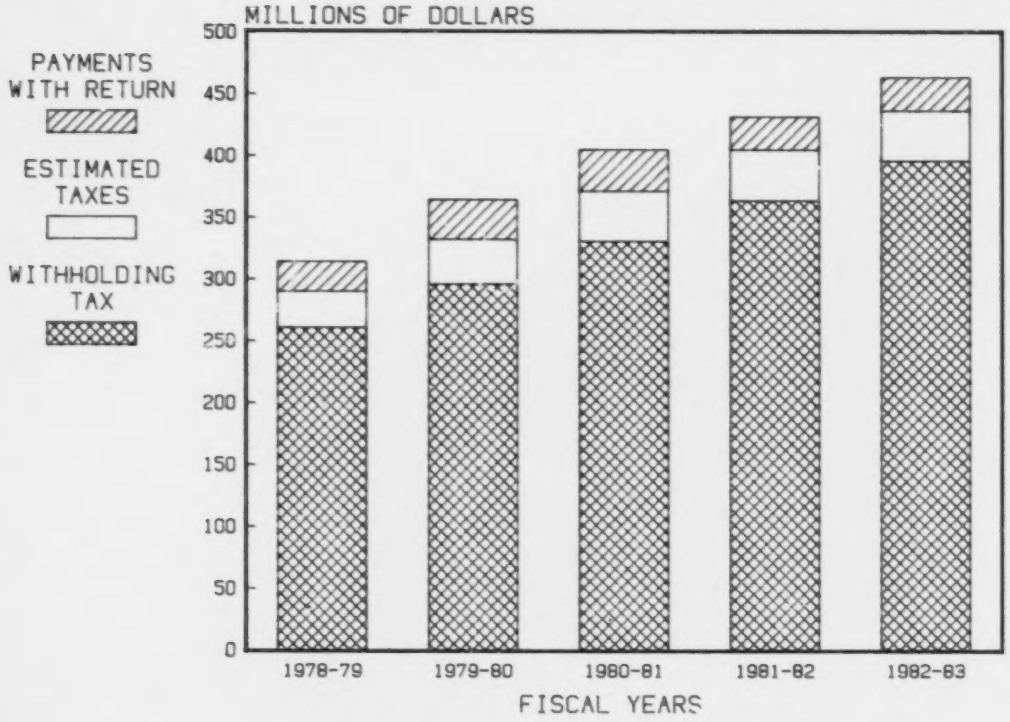
INDIVIDUAL INCOME TAX

Net proceeds from taxes on incomes of individuals increased 22.6% to $347.0 million in fiscal year 1983. The Department processed 367,244 claims for refunds during the year with total disbursements amounting to $116.7 million, or approximately $317.81 per refund. Comparable figures for the preceding year were 403,506 refunds totalling $148.6 million for an average of $368.24. Reflected in this change is a drop in the one-time general income tax credit from $100 per resident for taxable year 1981 to $25 per qualifying resident for taxable year 1982.

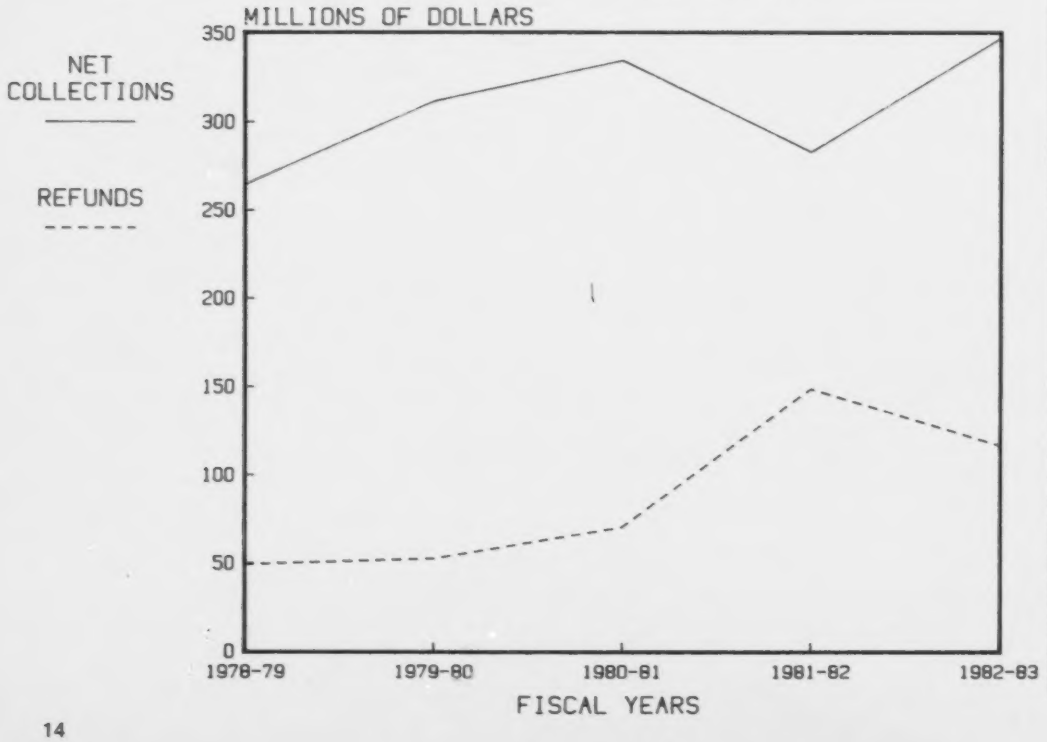
TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1983	FY 1982	1982-83	1978-83
Declaration of Estimated Taxes	$ 40,629	$ 41,356	- 1.8	10.3
Payment with Return	26,899	26,452	1.7	6.5
Withholding Tax on Wages	396,200	363,781	8.9	11.4
Sub-Total	$463,728	$431,589	7.4	10.9
Refunds	116,712	148,589	-21.5	25.5
Net	$347,016	$283,000	22.6	9.7

INDIVIDUAL INCOME TAXES
GROSS COLLECTIONS BEFORE REFUNDS



INDIVIDUAL INCOME TAXES
REFUNDS AND NET COLLECTIONS

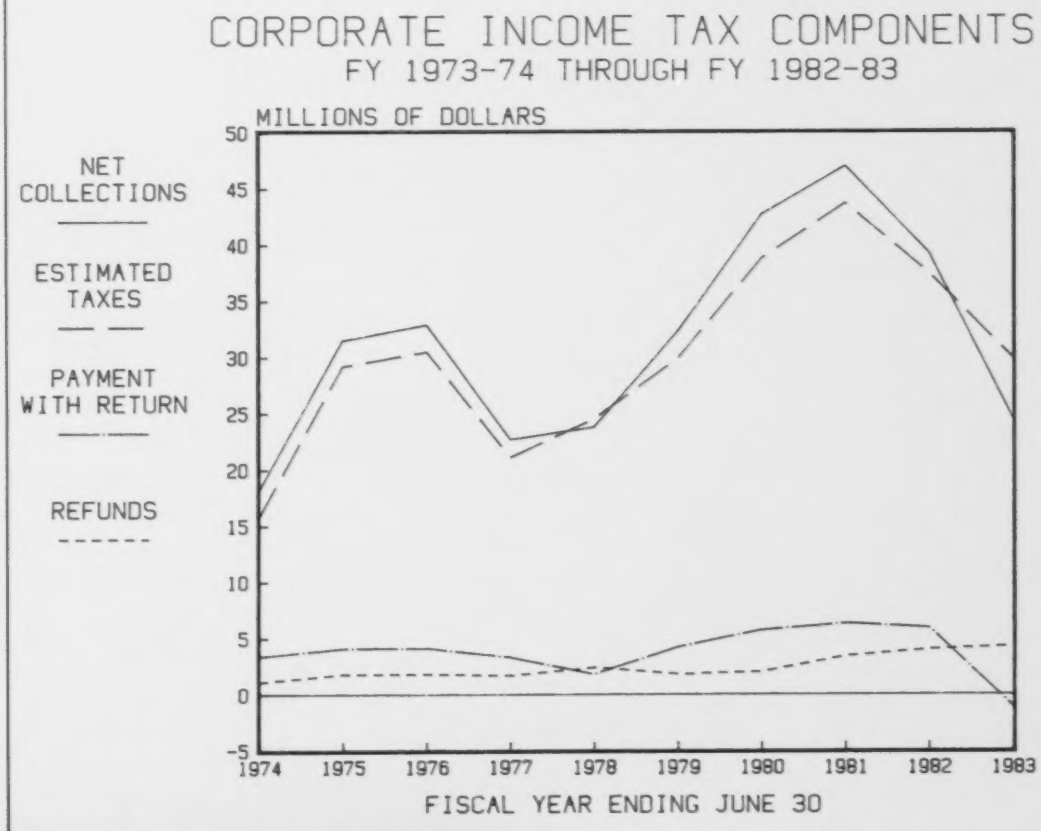


CORPORATE INCOME TAX

Net corporate income tax revenue declined to $24.5 million, a decrease of 37.8% from the $39.3 million for the preceding fiscal year. Refunds of past tax payments due to net operating loss carrybacks exceeded payments of current liabilities by $1.1 million. Declaration of estimated taxes totalled $29.9 million, 20% below last year's $37.5 million. During the year, the Department processed refunds of current liabilities amounting to $4.3 million for 1,552 corporations. In comparison, 1,549 refunds totalling $4.0 million were processed for fiscal year 1982.

TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1983	FY 1982	1982-83	1978-83
Declaration of Estimated Taxes	$29,891	$37,481	- 20.3	6.0
Payment with Return, after Adjustments.....	(1,090)	5,860	-118.6	11.7
Sub-Total	$28,801	$43,341	- 33.5	5.2
Refunds	4,335	4,028	7.6	15.3
Net	$24,466	$39,313	- 37.8	4.7



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GENERAL EXCISE AND USE TAX BASE AND TAXES FOR THE FISCAL YEARS ENDING JUNE 30, 1983 & 1982
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	1983	1982	% Change
TAX BASE				
Retailing		$ 7,247,797	$ 6,841,588	5.9
Services		2,044,754	1,840,105	11.1
Contracting		1,321,195	1,503,538	-12.1
Hotel Rentals		873,760	803,155	8.8
All Other Rentals		1,525,570	1,328,215	14.9
All Others (4%)		1,151,456	1,287,853	-10.6
Sub-Total		$14,164,532	$13,604,454	4.1
Sugar Processing		$ 392,411	$ 303,430	29.3
Pineapple Canning		180,004	184,096	- 2.2
Producing		192,246	178,887	7.5
Manufacturing		498,460	591,001	-15.7
Wholesaling		3,554,137	3,256,644	9.1
Use (½%)		1,947,813	1,895,980	2.7
All Others (½%)		83,353	61,659	35.2
Insurance Commissions		202,413	262,226	-22.8
Sub-Total		$ 7,050,837	$ 6,733,923	4.7
TOTAL - ALL ACTIVITIES		$21,215,369	$20,338,377	4.3
TAX				
Retailing	4%	$ 289,912	$ 273,663	5.9
Services	4%	81,790	73,604	11.1
Contracting	4%	52,848	60,141	-12.1
Hotel Rentals	4%	34,950	32,126	8.8
All Other Rentals	4%	61,023	53,129	14.9
All Others	4%	46,058	51,515	-10.6
Sub-Total		$ 566,581	$ 544,178	4.1
Sugar Processing	½%	$ 1,962	$ 1,517	29.3
Pineapple Canning	½%	900	921	- 2.3
Producing	½%	961	895	7.4
Manufacturing	½%	2,493	2,955	-15.6
Wholesaling	½%	17,771	16,283	9.1
Use	½%	9,739	9,480	2.7
All Others	½%	417	304	37.2
Insurance Commissions	.15%	303	393	-22.9
Sub-Total		$ 34,546	$ 32,748	5.5
TOTAL - ALL ACTIVITIES		$ 601,127	$ 576,926	4.2

GENERAL EXCISE AND USE TAXES

The State's largest revenue producer, the general excise and use taxes accounted for 48.9% of total State tax collections. These taxes produced $601.1 million in fiscal year 1983, up 4.2% from last year's $576.9 million.

Gross receipts reported by businesses subject to these taxes increased 4.3% to $21,215.4 million for the fiscal year. Business activities showing declines include contracting, all others (4%), pineapple canning, manufacturing, and insurance solicitation. Retailing led gainers with a volume of $7,247.8 million, 5.9% over the fiscal 1982 total. This was followed by wholesaling with $3,554.1 million, up 9.1%. Services advanced to $2,044.8 million, up 11.1%; the one-half percent use tax, $1,947.8 million, up 2.7%; all other rentals, $1,525.6 million, up 14.9%; hotel rentals, $873.8 million, up 8.8%; sugar processing, $392.4 million, up 29.3%; producing, $192.2 million, up 7.5%; and all others (1/2%), $83.4 million, up 35.2%.

INHERITANCE AND ESTATE TAXES

During the year, 10,572 estates were settled, with inheritance and estate taxes totalling $6.4 million, an increase of 25.7% from the $5.1 million collected a year ago. The number of taxable estates at the end of the year was 1,330, compared with 1,132 a year ago.

INHERITANCE AND ESTATE TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1983	FY 1982	1982-83	1978-83
Inheritance Tax	$6,270	$4,914	27.6	9.9
Estate Tax	98	168	- 41.7	61.5
SUB-TOTAL	$6,368	$5,082	25.3	10.0
Penalty & Interest	48	24	100.0	13.4
TOTAL	$6,416	$5,106	25.7	10.0

PUBLIC SERVICE COMPANY TAXES

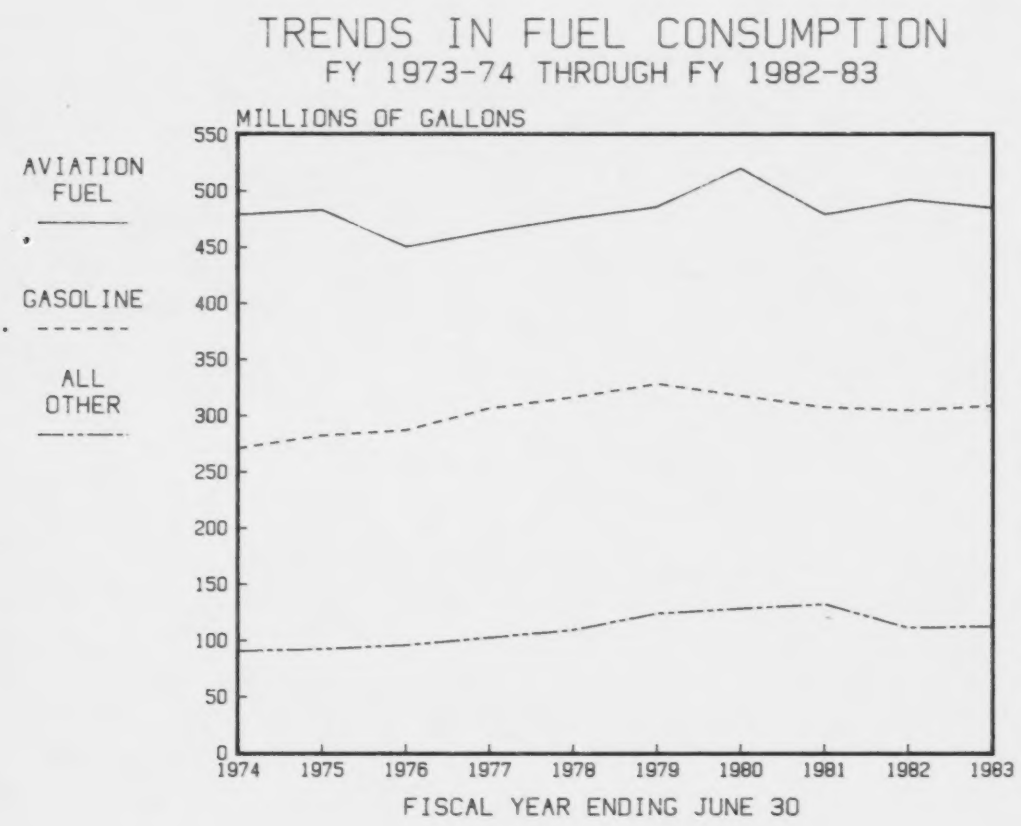
Tax yield from this source totalled $66.4 million in fiscal year 1983 as compared to $57.0 million a year ago, an increase of 16.5%. Revenue from public utilities rose 20.3%, while motor carriers and contract carriers paid 6.2% less in 1983. The airlines have been paying only a portion of this tax for the past three fiscal years, pending an appeal to the United States Supreme Court of rulings favorable to the Tax Department by the Tax Appeal Court in 1978 and the Hawaii State Supreme Court in 1980. Litigation concerns the State's right to tax the gross receipts of air transportation sale.

PUBLIC SERVICE COMPANY TAX
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1983	FY 1982	1982-83	1978-83
Public Service Company Tax	$66,217	$56,869	16.4	16.4
Penalty & Interest	178	118	50.8	34.0
TOTAL	$66,395	$56,987	16.5	16.4

FUEL TAXES

A steady decline in gasoline prices through most of the year contributed to a 1.3% increase over last year in statewide gasoline consumption following three successive years of decline. The fall in gasoline prices, however, was halted by a 5-cents-a-galion federal tax boost imposed on April 1, 1983. Diesel oil consumption for highway use also increased, up 20% over last year's dip and 8% over the fiscal 1981 level. Aviation fuel consumption decreased 1.5% to 485.1 million gallons.



GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

	FY 1983	FY 1982	Av. Annual Change (Percent) 1982-83	1978-83
Gasoline	308,809	304,816	1.3	- 0.5
Diesel Oil - Non-highway	88,518	90,206	- 1.9	0.1
Diesel Oil - Highway	18,954	15,763	20.2	6.3
Liq. Petro. Gas - Off Highway	2,986	2,442	22.3	12.1
Liq. Petro. Gas - Highway	1,035	1,047	- 1.1	- 1.6
Small Boats - Gasoline	195	338	-42.3	-18.3
Small Boats - Diesel Oil	608	1,555	-60.9	0.8
Aviation Fuel	485,122	492,380	- 1.5	0.5
TOTAL	906,227	908,547	- 0.3	0.1

Total fuel taxes collected, including the motor vehicle weight tax, amounted to $62.6 million as compared to $61.1 million a year ago. Of this total, $37.4 million accrued to the state highway fund, with $19.9 million allocated to the counties, $4.9 million to the state airport fund, and $477 thousand to the boating special fund.

ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 1983	FY 1982	Difference
STATE HIGHWAY FUND:			
Gasoline	$25,865	$25,583	$ 282
Diesel Oil - Non-highway Use	883	911	(28)
Diesel Oil - Highway Use	1,595	1,330	265
Liq. Petro. Gas - Off Highway Use	29	24	5
Liq. Petro. Gas - Highway Use	62	62	—
Sub-Total	$28,434	$27,910	$ 524
Motor Vehicle Weight Tax/Reg. Fees	8,921	8,479	442
TOTAL	$37,355	$36,389	$ 966
COUNTY HIGHWAY FUNDS:			
City & County of Honolulu	$15,310	$14,898	$ 412
County of Maui	1,928	1,818	110
County of Hawaii	2,001	2,015	(14)
County of Kauai	632	652	(20)
TOTAL	$19,871	$19,383	$ 488
BOATING SPECIAL FUND	$ 477	$ 357	$ 120
STATE AIRPORT FUND:			
Aviation Fuel	$ 4,851	$ 4,923	$(72)

OTHER TAXES

Revenues from remaining assorted sources amounted to $129.2 million, up 6.0% over last year. Banks and other financial corporations experienced a $2.4 million excess of refunds over franchise tax payments as a result of heavy net operating losses sustained in recent years. This amount represents a difference of $6.3 million from last year's net revenues of $3.9 million. Conveyance tax collections rose a modest 4.8% to $1.5 million, still below the $2.0 million level of two years ago. Employment security contributions, collected for the Department of Labor and Industrial Relations, were up 15.9%, while taxes on insurance premiums were down 5.0%. Tax collections on liquor & permits and tobacco & licenses both increased by over 20% from last year. Liquor tax payments under protest were placed in a litigation account and are not included in the $9.3 million collections of FY 1983. The litigated account balance as of June 30, 1983 amounted to $69.5 million.

MISCELLANEOUS TAXES
(In Thousands of Dollars)

TYPE OF TAX	FY 1983	FY 1982	Av. Annual Change (Percent) 1982-83	1978-83
Banks & Other Financial Corp.	$(2,441)	$ 3,888	-162.8	-34.2
Conveyance	1,515	1,446	4.8	5.8
Empl. Security Contributions	67,625	58,324	15.9	- 1.2
Insurance Premiums	26,356	27,757	- 5.0	11.3
Liquor & Permits	9,299	7,701	20.8	10.8
Tobacco & Licenses	17,609	14,011	25.7	10.2
All Others	361	353	2.3	0.7
SUB-TOTAL	$120,324	$113,480	6.0	- 0.2
Motor Vehicle Weight/Reg. Fees	8,921	8,479	5.2	-
TOTAL	$129,245	$121,959	6.0	- 0.2

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

Total taxes collected by the various agencies of the State and county government amounted to $1,228.5 million, or 8.1% more than last year. Of this total, $1,191.7 million was collected by the Department of Taxation. The Department of Land and Natural Resources collected $1.5 million in conveyance tax, while the Department of Commerce and Consumer Affairs collected $26.4 million in insurance premium tax. The State motor vehicle weight tax of $8.9 million was collected by the counties and turned over to the Department of Budget and Finance.

Tax collections accruing to the State General Fund totalled $1,082.5 million, or 88.1% of all collections. The counties received $20.0 million, or 1.6% of the total. The remaining 10.3%, or $125.9 million, accrued to the State special funds, which include the highway, airport, boating, unemployment trust, and election campaign funds.

DISTRIBUTION OF COLLECTIONS

	FY 1983 Amount Collected	FY 1983 % of Total	FY 1982 Amount Collected	FY 1982 % of Total
State General Fund	$1,082,515,603	88.1	$ 999,663,074	88.0
State Special Funds	125,911,686	10.3	116,822,065	10.3
County Funds	20,024,328	1.6	20,044,042	1.7
TOTAL	$1,228,451,617	100.0	$1,136,529,181	100.0

Net tax collections increased for each of the four counties. A comparative summary of taxes collected by the Department in each county in fiscal years 1982 and 1983 appears below. Not included are the conveyance, insurance premium, and motor vehicle weight taxes, which are collected by other State and county agencies.

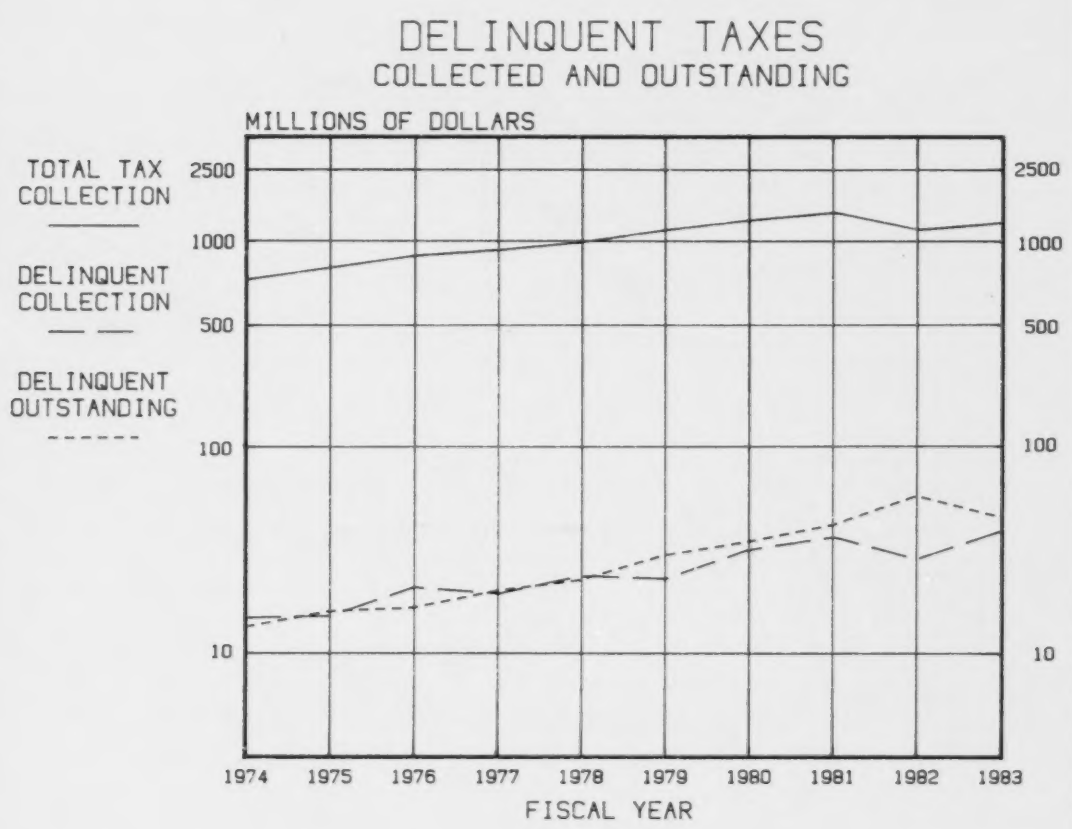
TAX COLLECTIONS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
OAHU	**FY 1983**	**FY 1982**	**1982-83**	**1978-83**
Gross Collections*	$1,177,872	$1,118,041	5.4	6.2
Less Appeals, Payments under Protest, Refunds, Temporary Disability Insurance	133,538	141,336	- 5.5	24.2
Net Collection by Department	$1,044,334	$ 976,705	6.9	5.1
MAUI				
Gross Collections*	$ 76,109	$ 65,945	15.4	8.3
Less Appeals, Payments under Protest, Refunds, Temporary Disability Insurance	13,590	16,965	-19.9	34.7
Net Collection by Department	$ 62,519	$ 48,980	27.6	7.3
HAWAII				
Gross Collections*	$ 71,525	$ 70,340	1.7	3.9
Less Appeals, Payments under Protest, Refunds, Temporary Disability Insurance	12,354	18,438	-33.0	29.0
Net Collection by Department	$ 59,171	$ 51,902	14.0	2.8
KAUAI				
Gross Collections*	$ 30,569	$ 28,346	7.8	5.0
Less Appeals, Payments under Protest, Refunds, Temporary Disability Insurance	4,933	7,086	-30.4	26.6
Net Collection by Department	$ 25,636	$ 21,260	20.6	5.7

**Excludes conveyance, insurance premium, and motor vehicle weight taxes.*

DELINQUENT TAXES

Delinquent collections at the end of fiscal year 1983 totalled $37.3 million, an increase of 30.4% over collections of $28.6 million last year. The collections include write-offs of $1.7 million in 1983 and $1.2 million in 1982. Delinquent accounts numbered 25,720 at the beginning of fiscal 1983. During the year, 40,889 new referrals were made and 45,758 accounts were closed, leaving a balance of 20,851 delinquent accounts at year-end, 19% below the level of last year. The amount of delinquent taxes outstanding at the end of fiscal 1983 stood at $45.7 million, $12.4 million less than a year ago.



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BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

The high degree of centralization in Hawaii's tax structure enables the State Government to utilize revenue sources in an effective and comprehensive manner. The general excise tax continues to be the major source of the State's general fund tax revenue, followed by the progressive individual income tax.

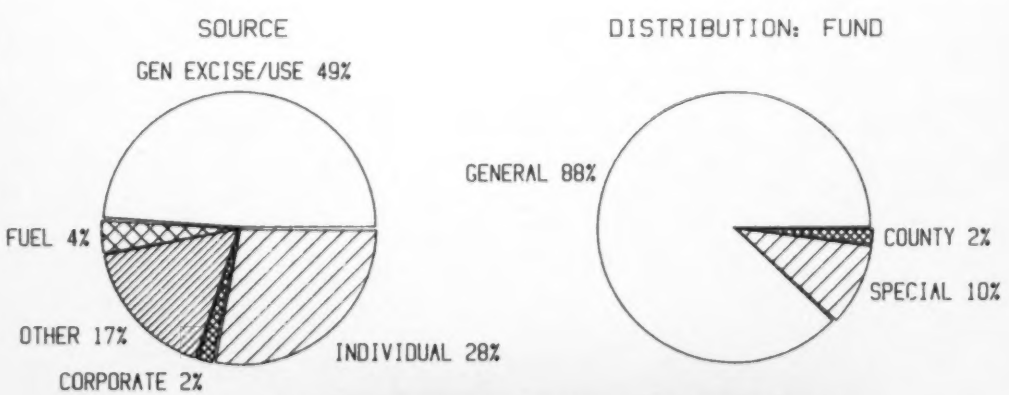
An outstanding characteristic of the State's tax structure is its use of income tax credits. In existence since 1965, these credits were designed to provide relief to low-income taxpayers. Over the years, changes were made to simplify both the filing process and the administration of these tax credits.

Under the present law, an excise tax credit may be claimed by resident taxpayers with adjusted gross income under $20,000, if they are not eligible to be claimed as a dependent by another taxpayer. In 1980, the credit amounts were increased, ranging from $8 per qualified exemption for those with adjusted gross income of $14,000-$19,999 to $48 for those with adjusted gross income under $5,000, with a double credit allowed for those age 65 and over. Other tax credits for eligible taxpayers include credits for low-income renters, child care, solar energy devices, heater insulation, child passenger restraint systems, and fuel for commercial fishers.

For taxable year 1982, Act 265 of the 1982 Legislature gave a one-time $25 general income tax credit to all residents of the State of Hawaii. This law was enacted to implement Article VII, Section 6, of the State Constitution, which mandates the Legislature to provide for a tax refund or credit whenever general fund year-end balances exceed five percent of general fund revenues for two successive fiscal years.

Hawaii has fifteen separate tax laws of which twelve are administered by the State. The remaining three—the motor vehicle weight tax, the public utility franchise tax, and the real property tax—are administered by the counties. Until July 1, 1981, the real property tax law was administered by the State, with the revenue from this source accruing to the counties. The counties administer all of the real property functions. The counties also administer the State and county motor vehicle weight taxes, revenues from which accrue to the State and county highway funds. Revenues from ten of the State-administered taxes go into the State's general fund and are used to provide the various services of the State Government, including the health, education, and social services systems which are state functions in Hawaii. Although the fuel tax is administered by the State, it is a source of revenue for both State and county governments. The employment security tax is a dedicated tax, used exclusively to provide benefits to unemployed workers.

TAX COMPOSITION: FY 1983



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STATE GENERAL FUND

GENERAL EXCISE TAX: The general excise tax is a tax on the privilege of doing business in the State as measured by the gross proceeds of business transactions. Hawaii is one of the few states having a gross receipts tax. This tax applies, with few exceptions, to all levels of business activities, including not only the consumer level, but also the producing, manufacturing, and wholesaling activities. The significant difference between Hawaii's general excise tax as compared to a sales tax is that the incidence of the tax is on the seller rather than on the purchaser. This tax applies to receipts from the sale of tangible personal property, services performed, and income from the investment of business capital, in such forms as interest, rentals, royalties, fees, etc.

The consumer level rate is 4%, with the rate on producing, manufacturing, and wholesaling at ½ of 1%. Insurance solicitors and agents have a preferential rate of .15%.

USE TAX: Under the use tax law, an excise tax is levied on the import or purchase of tangible personal property from an unlicensed seller for use or for resale at retail in the State. If the import is for resale, it carries the wholesaling rate of ½ of 1%; otherwise, the rate is 4%, the same as for retailing.

INCOME TAXES: The Income Tax Law of 1957 adopted, with certain exceptions, the provisions of the Internal Revenue Code in the determination of gross income, adjusted gross income, and taxable income. Some of the significant exceptions applicable under Hawaii's law are: 1) taxation of cost-of-living allowances received by federal employees in Hawaii; 2) exclusion of pension income; 3) allowance of $7,000 personal exemption for persons who are blind, deaf, or totally disabled; and 4) a deduction, up to $5,000 a year, for an individual housing account.

INHERITANCE AND ESTATE TAXES: These are taxes on the transfer of property at the time of death. In determining the amount of inheritance tax, the law provides certain exemptions and rates, depending on the relationship of the beneficiary to the deceased. Through the fiscal year ending June 30, 1983, exemptions were $300,000 for a spouse, $150,000 for a direct line beneficiary, and $5,000 for all other beneficiaries. The 1983 State Legislature enacted a new law that applies to the property or interest subject to the estate and transfer tax that passes from any person who dies after June 30, 1983.

LIQUOR AND TOBACCO TAXES: These are ad valorem taxes on the wholesale value of liquor and tobacco products. This is quite different from the usual practice on the mainland where liquor is taxed on a gallonage basis, with rates depending on the alcoholic content; and where cigarettes are taxed on the basis of the number in the pack. Hawaii taxes all tobacco products at a rate of 40% of the wholesale value, and liquor at 20% of the wholesale value.

PUBLIC SERVICE COMPANY TAX: This is a tax on public utility business in lieu of general excise and real property taxes. Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers is taxed at 5.35%. The rate on all other public utility gross income is based on the ratio of net to gross income. If this ratio is 15% or less, the rate is 5.885%, increasing by .2675% for each 1% increase in ratio of net to gross. The rate for airlines, motor carrier and contract carrier business is 4% of gross income. However, airlines may pay at the rate of 3% if they adopt a fare schedule that is less than one-half of the regular adult fare for students in grades 12 or below traveling in school groups.

BANKS AND OTHER FINANCIAL INSTITUTIONS: A franchise tax in lieu of all other taxes, except real property, is imposed on both national and state banks, building and loan companies, industrial loan companies, and small business investment companies. The tax rate is 11.7% of taxable income measured by net income for the preceding year.

INSURANCE PREMIUM TAX: This is a tax on insurance companies based on premiums received in Hawaii and is in lieu of all taxes, except real property and taxes on the purchase, use or ownership of tangible personal property. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the Director of Taxation all amounts of taxes collected. The rates are: life insurance - domestic, 1.918% and foreign, 3.197%; surplus lines, 4.68%; ocean marine, .8775%; and other insurance - domestic, 2.9647% and foreign, 4.284%. These rates are applicable to all premiums and gross underwriting profits received during the calendar year (1979 and thereafter).

CONVEYANCE TAX: This tax is imposed, with certain exceptions, on all deeds, leases, subleases, assignments of lease, agreements of sale, instruments, writings, or other documents transferring ownership or interest in any land, tenement, or other realty. The rate of tax is 5¢ on each $100 of actual and full consideration paid with a minimum tax of one dollar on each taxable transaction. The purpose of this law is to acquire selling price data to determine market value which is needed to achieve uniformity in real property tax assessment.

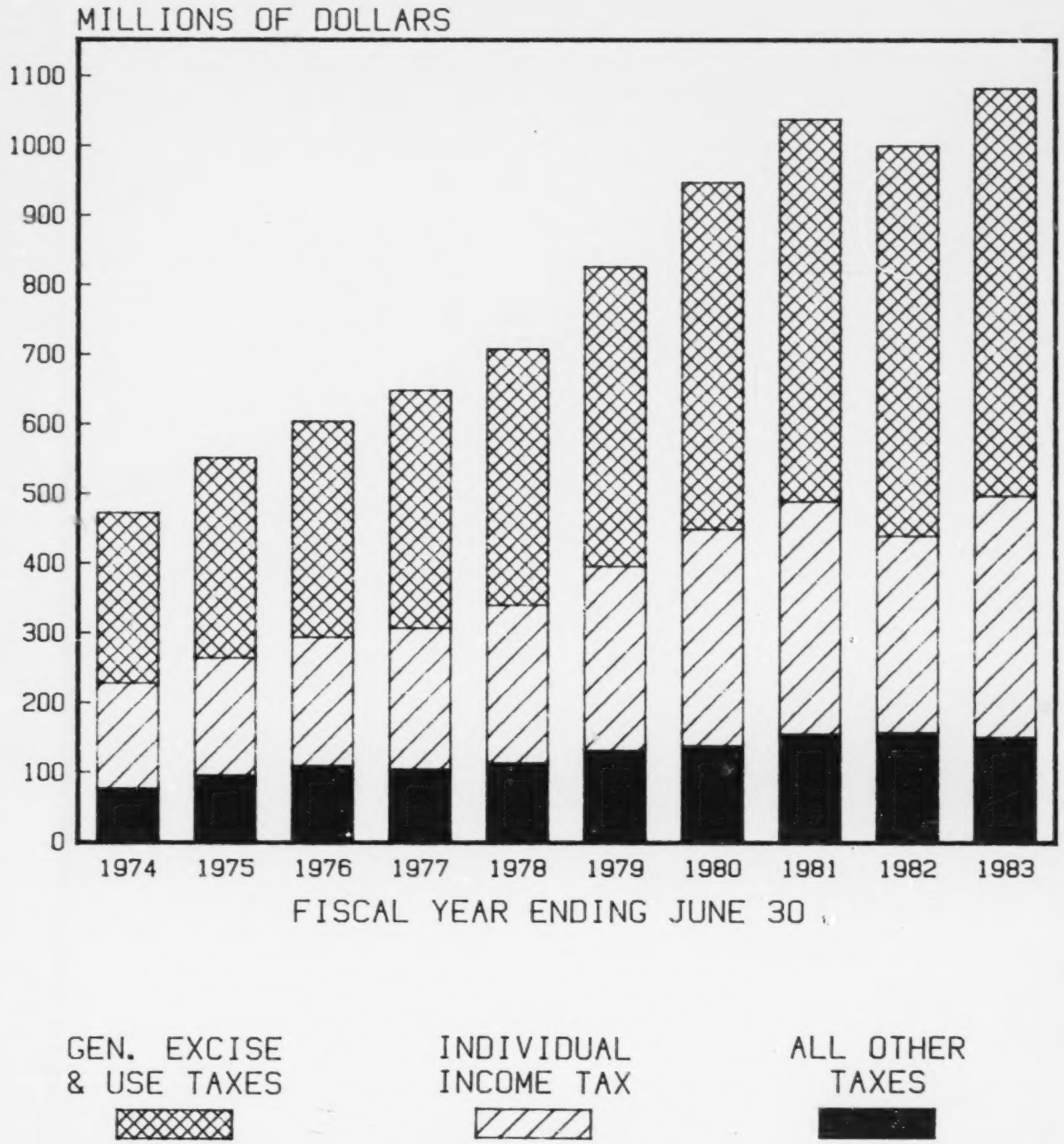
SPECIAL PURPOSE TAXES

FUEL TAXES: The fuel tax is administered and collected by the State, but it is a source of revenue for both State and county governments. The county tax rates on each gallon of gasoline and diesel oil used on the highways are set by the Council of each county. State fuel tax rates are established by the State Legislature. Revenue from this source goes into State and county special funds for use in the construction and maintenance of highways, roads, airports, and boating program.

The county tax rates on gasoline and diesel oil used on the highways which were in effect for this year are: 6½¢ for the City and County of Honolulu, 6¢ for the County of Maui, 5¢ for the County of Hawaii, and 4¢ for the County of Kauai. The State rate is 8½¢ for all gasoline usages and diesel oil used on the highways, and 1¢ for diesel and liquefied petroleum gas used off highways. The aviation fuel tax rate is 1¢ per gallon. To encourage the use of liquefied petroleum gas for anti-pollution purposes, the fuel tax on liquefied petroleum gas used on the public highways was reduced to two-thirds of the rates applicable to diesel oil used on the highways for both State and county purposes.

HAWAII EMPLOYMENT SECURITY TAX: The proceeds from this tax go into the unemployment insurance trust fund for the payment of benefits to unemployed workers while they are seeking new jobs. This is a tax on employers and is measured by wages and salaries paid. It is a variable tax rate, ranging from 1.0% to 4.5% based on the employer's past employment record. This law is administered by the Department of Labor and Industrial Relations, but the tax is payable to the Director of Taxation.

TRENDS IN GENERAL FUND REVENUE
BY SOURCE



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TAX COLLECTIONS

Source of Revenue	FY 1983 Amount Collected	FY 1983 % of Total	FY 1982 Amount Collected	FY 1982 % of Total
Banks-Financial Corps.	$ (2,441,046)	- .20	$ 3,888,230	.34
Conveyance	1,514,888	.12	1,446,145	.13
Employment Security Contributions	67,625,037	5.50	58,324,482	5.13
Fuel	53,633,457	4.37	52,574,785	4.63
General Excise & Use	601,127,326	48.93	576,926,668	50.76
Income - Corporations	24,466,504	1.99	39,313,870	3.46
Income - Individuals	347,015,648	28.25	282,999,930	24.90
Inheritance and Estate	6,415,597	.52	5,105,869	.45
Insurance Premiums	26,355,858	2.15	27,756,730	2.44
Liquor and Permits	9,299,285	.76	7,701,098	.68
Motor Vehicle Weight/Registration Fees	8,921,055	.73	8,479,169	.75
Public Service Companies	66,395,288	5.41	56,987,473	5.01
Real Property	153,318	.01	660,807	.06
Tobacco and Licenses	17,608,579	1.43	14,010,696	1.23
All Others	360,821	.03	353,229	.03
TOTAL	$ 1,228,451,617	100.00	$1,136,529,181	100.00

DISTRIBUTION OF COLLECTIONS

STATE FUNDS:				
State General	$1,082,515,603	88.12	$ 999,663,074	87.96
State Highway	37,354,850	3.04	36,389,534	3.20
State Highway (Act 159, S.L.H. 1981)	15,538,477	1.26	16,511,734	1.45
State Airport	4,851,222	.39	4,923,803	.43
Boating Special Fund	477,432	.04	357,382	.03
Unemployment Trust	67,625,037	5.51	58,324,482	5.13
Election Campaign Fund	64,668	.01	315,130	.03
SUB-TOTAL - STATE	$1,208,427,289	98.37	$1,116,485,139	98.23
COUNTY REVENUES:				
Property	$ 153,318	.01	$ 660,807	.06
Fuel	19,871,010	1.62	19,383,235	1.71
SUB-TOTAL - COUNTIES	$ 20,024,328	1.63	$ 20,044,042	1.77
TOTAL	$1,228,451,617	100.00	$1,136,529,181	100.00

STATE GENERAL FUND

	FY 1983		FY 1982	
Source of Revenue	**Amount Collected**	**% of Total**	**Amount Collected**	**% of Total**
Banks-Financial Corps.	$ (2,441,046)	- .23	$ 3,888,230	.39
Conveyance	1,514,888	.14	1,446,145	.14
General Excise & Use	585,588,849	54.10	560,414,934	56.06
Income - Corporations	24,466,504	2.26	39,313,870	3.93
Income - Individuals	346,950,980	32.05	282,684,800	28.28
Inheritance and Estate	6,415,597	.59	5,105,869	.51
Insurance Premiums	26,355,858	2.44	27,756,730	2.78
Liquor and Permits	9,299,285	.86	7,701,098	.77
Public Service Companies	66,395,288	6.13	56,987,473	5.70
Tobacco and Licenses	17,608,579	1.63	14,010,696	1.40
All Others	360,821	.03	353,229	.04
TOTAL	$ 1,082,515,603	100.00	$ 999,663,074	100.00

FUEL TAX RATES PER GALLON

	State	County	Total
GASOLINE & DIESEL OIL (HWY. USE):			
City & County of Honolulu	8½¢	6½¢	15 ¢
County of Maui	8½¢	6 ¢	14½¢
County of Hawaii	8½¢	5 ¢	13½¢
County of Kauai	8½¢	4 ¢	12½¢
LIQUID PETROLEUM GAS (HWY. USE):			
City & County of Honolulu	6 ¢	4 ¢	10 ¢
County of Maui	6 ¢	4 ¢	10 ¢
County of Hawaii	6 ¢	3 ¢	9 ¢
County of Kauai	6 ¢	3 ¢	9 ¢

DEPARTMENT OF TAXATION

TRAINING PROGRAMS FOR FISCAL YEAR ENDING 6/30/83

	Training Course	No. of Employees	Hours of Training
1.	7th Annual Financial Seminar	1	24
2.	Basic Word Processing	1	40
3.	Introduction to the Hawaii State Executive Budget System	21	84
4.	Labor Relations for Supervisors	1	16
5.	Time Management	2	16
6.	1982 Clerical Seminar	36	288
7.	Governor's Conference for Excluded Employees	14	112
8.	Prevention & Detection of Fraud, Waste & Abuse	1	8
9.	Seminar on GAAP for Government	1	24
10.	Managerial Skills	1	32
11.	Energy Management & Conservation Seminar	2	24
12.	Introduction to Statistics	1	8
13.	Are Quality Circles Right for Your Organizations?	2	5
14.	Quality Circle Leader & Facilitator Course	2	50
15.	Workshop on Unitary Apportionment	32	224
16.	Microfilm in Records Management	1	24
17.	Executive & Professional Corp.: Legal & Tax Aspects	1	8
18.	1982 Hawaii Tax Institute	8	320
19.	EEO/Selection Interviewing	18	144
20.	HAPA 1982 Annual Tax Seminar	17	272
21.	Modern EDP Controls & Auditing	1	40
22.	Effective Public Contact	9	72
23.	Creative Problem Solving	3	48
24.	1982 HSCPA Annual Tax Conference	8	64
25.	Educational Costs - Tax Considerations	1	4
26.	IRS Audit Negotiation Technique	5	40
27.	1983 Conference of Civil Service Comm. & Personnel Director	1	24
28.	The Front Line Employee	3	12
29.	Basic Tax Research	43	64
30.	IRS (CPE) for Tax Auditors	9	144
31.	IRS (CPE) for Revenue Agents	19	456
32.	ITO Tax Seminar	74	148
33.	TEFRA/Professional Corporation	55	165
	TOTALS	394	3,004

NOTE: List does not include certain general interest training.

OUTLINE OF HAWAII TAX SYSTEM AS OF JULY 1, 1982

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(1) Net Income Chapter 235–Sec. 235-1 to 235-119	Tax rates for individuals as well as estates and trusts range from 2.25% to 11.0% of taxable income. The allowable zero-bracket amounts vary by filing status. The zero-bracket amount for married filing joint return or surviving spouse with dependent child is $1,000; single or head of household is $800, and married filing separately is $500. Tax rates for corporations are 5.85% up to $25,000, and 6.435% over $25,000.	Returns due 20th day of 4th month following the close of taxable year. Withholding returns due monthly on or before the fifteenth day of the following calendar month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the fifteenth day of the month after the close of each quarter. An annual employer's return and reconciliation of Hawaii income tax withheld Form HW-3 must be filed together with a duplicate copy of each employee's tax statement Form HW-2 on or before the last day of February following the close of the calendar year. Estimates of income of individuals not subject to withholding, April 20th. Estimates of corporations, September 20th.	In general at time of filing returns. Estimates of individuals one-quarter April 20th, June 20th, September 20th, and January 20th. Corporations one-half September 20th and January 20th.
(2) Inheritance and Estate Chapter 236–Sec. 236-1 to 236-44	Hawaii resident tax on shares of net estate. Non-resident tax on shares of net estate having situs in Hawaii. Exemptions (a) Bequests to spouse $300,000; (b) parent, child, grandchild or legally adopted child $150,000; (c) bequests to others $5,000. Tax rates: (a) 2% to 7%, (b) 3% to 8%, (c) 3% to 10%; respectively. Estate Tax on corpus of estate having tax situs in Hawaii, to take advantage of the maximum credit for state death taxes under basic federal estate tax. Tax computed by subtracting inheritance tax from the maximum credit for state death taxes allowed.	The personal representative of the decedent's estate shall file a return. If there will be no administration of the estate, the return must be executed and filed by any person in actual possession of decedent's property, such as joint owner, trustees, transferees, beneficiaries, etc.	Decedent's personal representative must complete the return and pay applicable taxes due within 18 months after death.
(3) General Excise (Gross Income) Chapter 237–Sec. 237-1 to 237-49	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is ½ of 1% on wholesaling and intermediary services, blind vendors, producing, manufacturing, sugar processing and pineapple canning; all other activities (retailing business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, subagents, and solicitors who are taxed at .15%. A license must be secured and renewed annually on a calendar year basis. The cost is $2.50, plus an additional 50¢ for certain retailing activities.	Monthly returns are due on or before the last day of the following month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns.
(4) Use Chapter 238–Sec. 238-1 to 238-16	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: 1/2 of 1%, if for resale at retail, 4%, if for use or consumption. For exceptions, see Sections 238-3 and 238-4.	Monthly returns are due on or before the last day of the following month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(5) Public Service Company Chapter 239–Sec. 239-1 to 239-11	Nature of Tax- (1) Public utility business in lieu of general excise and real property taxes. (a) Measure of assessment–general rule: Gross income from public utility business of public utilities for preceding calendar year. For exception, see Sec. 239-9. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, ½ of 1%. (iii) All other revenues: If ratio of net to gross income is 15% or less, 5.885%; for each 1% increase in ratio of net to gross, rate increase .2675%. (2) Airline, motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measure of assessment–general rule: Gross income from airline, motor carrier, common carrier by water and contract carrier business for preceding calendar year. For exception, see Sections 239-9 and 239-11. (b) Rate: 4% of gross income, except airlines having special fare schedule for students, 3% of gross income.	Returns filed on or before April 20th, based upon calendar year operations of preceding year.	First installment at time of filing return or, on or before April 20. Other installments on 20th of June, September and December.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(6) Banks, Building and Loan, Industrial Loan Companies and Certain Other Financial Corporations Chapter 241—Sec. 241-1 to 241-7	(1) (a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax on banks, building and loan, industrial loan companies, financial corporations, small business investment companies, and development companies not subject to taxes imposed by Chapters 235 and 237. (For industrial loan company, small business investment companies, and development companies exemption under Chapter 237 (gross income tax).) (2) Measure of Assessment: Net income for the preceding year from all sources as defined by Chapter 235 (Income Tax Law) with modifications. (3) Rate: 11.7% of taxable income.	Returns filed on or before April 20, or the 20th day of the fourth month following the close of the fiscal year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th and 8th month thereafter.
(7) Fuel Chapter 243—Sec. 243-1 to 243-16	Distributors, as defined, are required to pay: 1¢ per gallon on aviation fuel; an initial 1¢ per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 12½¢ to 15¢ per gallon on liquid fuels other than the foregoing; also, pay additional taxes from 12½¢ to 15¢ per gallon on diesel oil and from 9¢ to 10¢ per gallon on liquefied petroleum gas used to operate motor vehicles upon the public highways; however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates, Form M-38. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed on Form M-36. Distributors are required to register and be licensed. Licenses are valid until revoked	Returns are due monthly on or before last day of the following month.	At time of filing returns.
(8) Liquor Chapter 244—Sec. 244-1 to 244-17	"Dealers" as defined in the law and certain others who sell or use liquor must pay an excise tax equal to 20% of the wholesale price. A $2.50 liquor tax permit is required and must be renewed before July 1st of each year. See Sec. 244-4 for exemption from tax.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(9) Tobacco Chapter 245—Sec. 245-1 to 245-15	"Wholesalers" as defined in the law and certain others must pay an excise tax on sale or use of tobacco products, equal to 40% of the wholesale price. A $2.50 tobacco tax license is required and must be renewed before July 1st of each year.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(10) Conveyance Chapter 247—Sec. 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 5¢ per $100.00 of the actual and full consideration paid or to be paid. Minimum $1.00 tax for each taxable transaction. (Documents of certain conveyances are exempted.)	A certificate of conveyance must be filed with the document at the Bureau of Conveyance within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.
(11) Hawaii Employment Security (Federal) Chapter 383—Sec. 383-1 to 383-174	This is a tax on wages paid, payable by employers of one or more employees with certain exemptions. The law on unemployment insurance benefit financing, amended to be effective January 1, 1979, retains the reserve ratio method of financing and establishes a two-part schedule consisting of a Basic Contribution Rate Schedule and a Fund Solvency Contribution Rate Schedule. The basic contribution rate will reflect the employer's own experience with unemployment and the fund solvency rate will reflect the trust fund's financial condition and experience of all covered employers. The employer's total contribution rate will not be less than 0% or greater than 4.5%.	Returns filed on or before the last day of the month following the taxable quarter.	At time of filing returns.
(12) Insurance Premiums Chapter 431—Sec. 431-1 to 431-726	Tax on insurance companies (Underwriters) based on premiums received in Hawaii. In lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance Domestic 1.918%; Foreign 3.197%; 4.68% on Surplus Lines; Ocean Marine .8775% of 1% on gross underwriting profit; on other Insurance Domestic 2.9647%; Foreign 4.2824%. This law is administered and the tax collected by the Insurance Commissioner who is required to report to the Director of Taxation all amounts of taxes collected under this chapter. See Act 144, 1978, relating to increase in premium rates applicable to all premiums and gross underwriting profit received during calendar year 1979 and thereafter.	Monthly or quarterly interim statements based on previous year's liability filed on or before the last day of the succeeding calendar month. Annual statement filed on or before March 15th with the Insurance Commissioner.	At time of filing statements.

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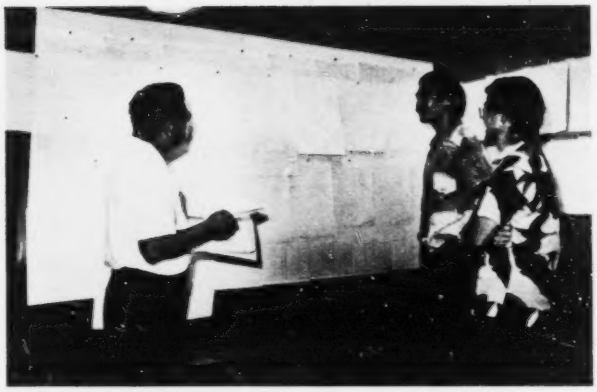

Systems and Procedures Staff Office
Priority Program: Comprehensive Net Income Tax System Program

Taxpayer Services Branch
Priority Program: Information and assistance to taxpayers

Enforcement Branch
Priority Program: Identify and assess non-filing taxpayers

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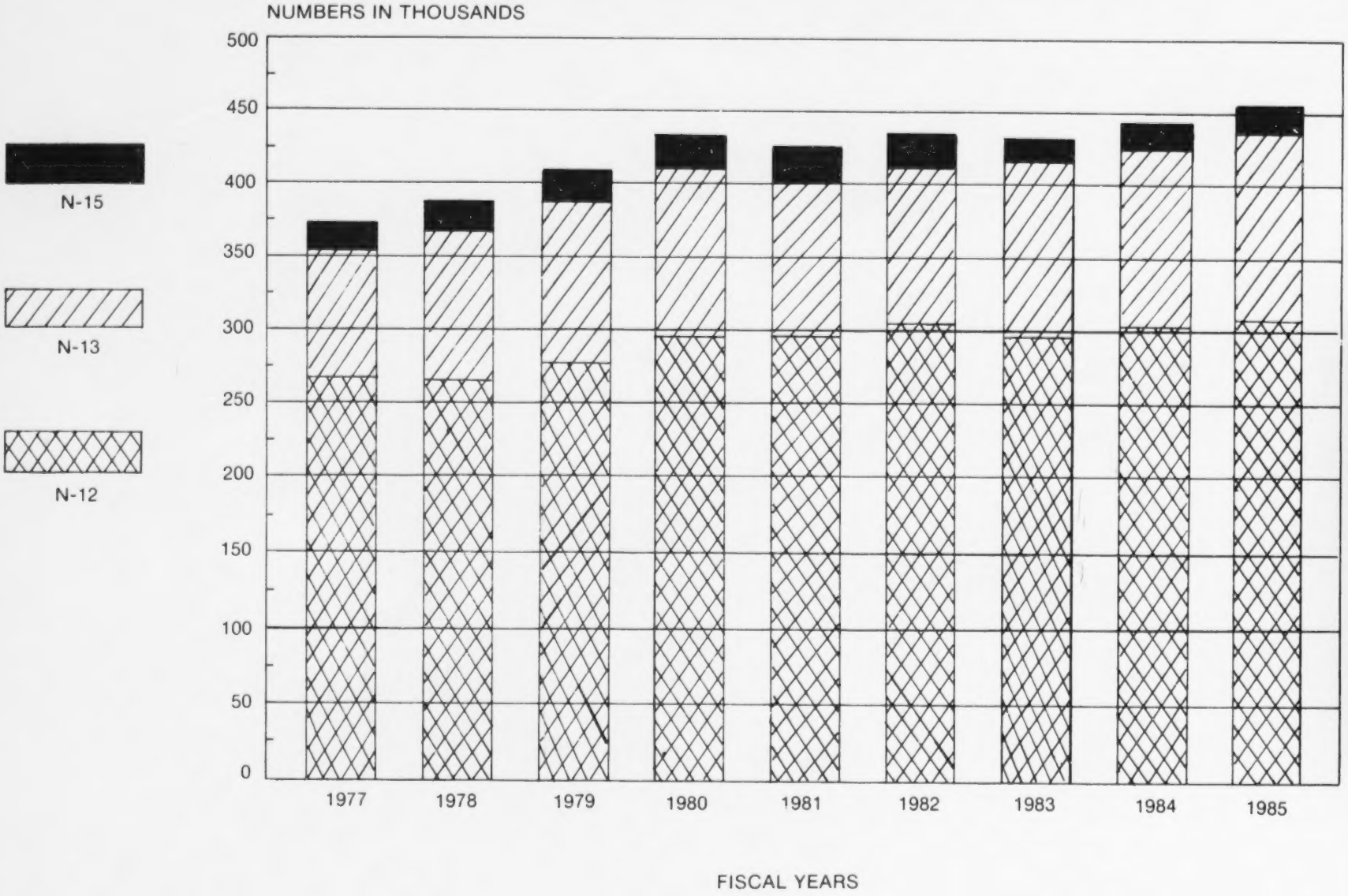
INDIVIDUAL INCOME TAX RETURNS PROCESSED



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